

METHODS AND SYSTEMS FOR PROVIDING AN AVERAGE PRICING CONTRACT FOR THE SALE OF A COMMODITY

Cross Reference to Related Applications

This is a continuation-in-part of co-pending patent application Ser. No. 10/209,994, entitled "*Methods and Systems for Purchase of Commodities With Concomitant Hedging*," by Tatge et al., filed on August 1, 2002, incorporated by reference herein in its entirety.

Field of the Invention

The present invention relates to commodity trading, and, more particularly, to methods and systems for providing an average pricing contract (APC) for the sale of a commodity.

Background of the Invention

Commodity traders are faced with the problem of having to make trading decisions in volatile markets. In some cases, choosing an inopportune time to make a trade can damage profitability. For instance, grain elevators typically operate on small margins. If the grain elevator sells a quantity of grain when the price of the grain is at a low point, the grain elevator may lose money. However, often the price of a commodity recovers.

There are many factors that can cause a commodity to change price. However, many of these are difficult to predict. For example, the price of corn

can be influenced by the weather in the so-called Corn Belt and the size of the cattle and poultry herds. Other factors can include the level of production, the price of competing feed grains, aggressiveness of government support programs, carryover stocks, and the price of corn sweetener substitutes. Furthermore, commodity prices can also be influenced by speculation and even rumors.

Summary of the Invention

The present invention involves a seller of a commodity offering an Average Pricing Contract (APC) for the sale of a specified quantity of the commodity. The APC is preferably offered to prospective buyers via the Internet using Web-based technology described herein.

In general, an APC specifies the type of commodity and the quantity of the commodity to be sold, as well as pricing points for pricing the commodity. An APC stipulates that the sale price of the commodity will be determined based on the current cash market prices for the commodity, at the specified pricing points. The sale price will be an average of these current cash market prices. An APC will appeal to many market participants who wish to guard against frequent or unexpected price changes.

An APC also specifies a delivery period for physical delivery of the commodity and includes the physical delivery location. An optional automatic hedging transaction is available for buyers who wish to further offset risk that the commodity price will unexpectedly change. In addition, the present invention can include displaying one or more of: the progress of pricing the commodity,

summary information to date, and final pricing information when the final pricing period is executed.

These and other aspects, features and advantages of the present invention will become apparent from the following detailed description of preferred embodiments, which is to be read in connection with the accompanying drawings.

Brief Description of the Drawings

FIG. 1(a) illustrates a preferred network for use in the invention;

FIG. 1(b) illustrates a typical sever for use in the invention;

FIG. 2 is a flow chart of an embodiment of an invention for providing an Average Pricing Contract (APC); and

FIGs. 3-8 illustrate an exemplary sequence of screens that may be used in an embodiment of the invention to provide the APC.

Description of Preferred Embodiments

Referring to FIG 1(a), a preferred network for use in the present invention is illustrated. A plurality of personal computers **20**, are connected to an Internet service provider (ISP) **25** via a network connections **30**, such as a modem and dialup telephone line, a digital subscriber line ("DSL"), or a cable modem connection. Internet service provider **25** interfaces with network **35**, which comprises a plurality of Web content servers **40**, including servers for control of domain-name resolution, routing, and other control functions.

The personal computers typically are configured with common Internet tools, including a Web browser to access servers **40** and specialized programs to connect with certain services. These services include electronic mail, one-to-many messaging (bulletin board), on-line chat, file transfer, and browsing. Browsing is effected using the Hypertext Transfer Protocol (HTTP), which provides users access to multimedia files using Hypertext Markup Language (HTML). The entire system of personal computers, internet service providers, and servers is called the Internet. The collection of servers **40** that use HTTP comprise the World Wide Web, which is the Internet's multimedia information delivery system.

FIG. 1(b) provides the details of a typical server **40** for use in the present invention. Server engine **45** receives HTTP requests to access the Web pages **50** identified by Uniform Resource Locator ("URL") and provides the Web pages as an interface to the requesting personal computer **20**. The databases **55** contain various tables storing information such as buyer and seller information.

Referring to FIG. 2, a flowchart of a preferred embodiment of a method for providing an Average Pricing Contract (APC) is shown.

Initially, a seller of a commodity (hereinafter the "Seller") selects the type and the quantity of a commodity to sell (**S1**). This may be accomplished, for example, by the Seller initially connecting to an HTTP server (e.g., via a Web site), and selecting an appropriate procedure to create the APC. Once this procedure is invoked, a screen such as the one shown in FIG. 3, will be displayed. As depicted in FIG. 3, this screen includes a pull-down menu **301** for

selecting a commodity (e.g., "Corn"), and a text box **302** for entering a quantity of the selected commodity to sell (e.g., 100,000 bushels).

The Seller then specifies the delivery periods for physical delivery of the commodity (**S2**). This may be accomplished by entering a delivery start date (e.g., 9/24/03) into text box **303**, and a delivery end date (e.g., 10/24/03) into text box **304**. After entering this information, a search of buyer delivery periods that fall near the range of the entered delivery dates are displayed. The Seller must choose one of these delivery periods to ship the commodity. FIG. 4 illustrates a screen which may be used to select a delivery period and location. In this example, the Seller has selected button **401**, indicating delivery at Dansville, Illinois between October 1, 2003 and October 15, 2003. (Note that these dates do not exactly coincide with delivery period initially entered by the Seller.)

Next, the Seller specifies the pricing criteria (**S3**). As mentioned, the price of the commodity is determined as an average cash market price of the commodity at various pricing points specified in the contract. A cash market price will be determined by adjusting a futures price for the commodity by a specified basis value. The futures price will preferably be obtained via a market data feed from an organized futures exchange, such as the Chicago Board of Trade (CBOT). As an example, the futures exchange might indicate a futures price of \$2.52 per bushel of corn. The basis value might be set at -\$0.20. (A basis value is a positive or negative amount that is used to adjust the futures price to calculate a cash price). In this case, the cash market price would be calculated by adjusting the futures price (i.e., \$2.52) using the basis value

(-\$0.20) to arrive at a cash price of \$2.32 (i.e., \$2.52 - \$0.20). The cash price will change frequently throughout the trading day.

Referring to FIG. 5, the Seller can use text box **501** to enter a pricing start date (e.g., 9/23/03) and text box **502** to enter a pricing end date (e.g., 9/30.03). Additionally, the Seller can select the days of the trading week by using the check boxes **503**, as well as the time of the trading day, in which to obtain market prices. As depicted, the options include at the opening of trade, the close of trade, or a specified time. Here, the Seller entered "1:15 PM" into text box **505**. In this example, the pricing points will occur at 1:15 PM on every Tuesday through Friday during the pricing period of September 23, 2003 to September 30, 2003.

Referring to FIG. 6, the five pricing points are displayed in window **601**. As shown in this window **601**, the first pricing point will be on September 23, 2003 at 1:15PM; the second pricing point will be on will be on September 26, 2003 at 1:15PM; the third pricing point will be on will be on September 25, 2003 at 1:15PM; the fourth pricing point will be on will be on September 24, 2003 at 1:15PM; and the fifth pricing point will be on will be on September 30, 2003 at 1:15PM. An approximately equal quantity of the commodity will be priced on each of these dates.

Next, a buyer of the commodity (hereinafter the "Buyer") accepts the terms of the APC forming a binding contract between the parties (**S5**). This may be accomplished by the Buyer logging onto the same Web site that the Seller used earlier to enter the APC, for example, and browsing various APC's that have

been listed. The Buyer would read through the terms of the Seller's APC. As depicted in FIG. 7, the terms of the contract are displayed to the Buyer. To signify agreement, the Buyer would check an "Approve" button 701. A print function could also be available to allow the contract to be printed.

Finally, the APC will be executed (**S6**). The pricing will occur automatically using market data from one or more commodity exchange and the basis level input by the Buyer who accepts the offer. Referring to FIG. 8, the progress of this pricing may be displayed and monitored by the parties. A status bar 801, can be used to graphically illustrate the level of completion of pricing progress. Following the final pricing period, an average of all the pricing points will be created, and a contract with the final prices will thereupon be generated. The quantity listed in the pricing periods will then be executed with the next tick received, the previous tick received or an average of a set amounts of previous or future ticks depending upon market volume. The Buyer will also have the option to allow an electronic futures order to be passed to the Buyer's current Introducing Broker (IB) or Futures Commodities Merchant (FCM) for hedging execution immediately following the cash pricing. For example, a buyer of corn might wish to *sell* futures contracts of this same commodity to hedge against a price decline. As another option, the Buyer may choose to place bushels in an aggregate position that will execute hedge orders when a certain volume threshold is obtained. This aggregate position will accumulate bushels of the commodity over time. Co-pending patent application Ser. No. 10/209,994, entitled "*Methods and Systems for Purchase of Commodities With Concomitant*

Hedging," by Tatge et al., filed on August 1, 2002, describes this notion of automatic hedging transactions in more detail.

While the exemplary screens depicted in FIGs. 3-8 use various graphical elements, it should be appreciated that the same, or similar, functionality can be accommodated using a variety of other graphical elements. The screens depicted in FIGs. 3-8 may include any other device capable of defining an APC, such as a command line interface, a touch-sensitive display, a keyboard, or the like, without departing from the spirit and scope of this invention.

Although illustrative embodiments of the present invention have been described herein with reference to the accompanying drawings, it is to be understood that the invention is not limited to those precise embodiments, and that various other changes and modifications may be affected therein by one skilled in the art without departing from the scope or spirit of the invention.